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FM AMEMBASSY MEXICO  
TO RUEHC/SECSTATE WASHDC PRIORITY 8581  
INFO RUEHXC/ALL US CONSULATES IN MEXICO COLLECTIVE  
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UNCLAS SECTION 01 OF 02 MEXICO 004552

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STATE FOR EB/ESC MCMANUS AND IZZO  
USDOC FOR 4320/ITA/MAC/WH/ONAFITA/GERI WORD  
USDOC FOR ITS/TD/ENERGY DIVISION  
TREASURY FOR IA (ALICE FAIBISHENKO)  
DOE FOR INTERNATIONAL AFFAIRS KDEUTSCH AND ALOCKWOOD  
NSC FOR RICHARD MILES, DAN FISK  
STATE PASS TO USTR (EISSENSTAT/MELLE)  
STATE PASS TO FEDERAL RESERVE (CARLOS ARTETA)

E.O. 12958: N/A  
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SUBJECT: MEXICO'S 2008 BUDGET PROCESS

REF: MEXICO 4015

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Summary  
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11. (SBU) The Calderon administration is required to submit its 2008 budget proposal to Congress by September 8. The Chamber of Deputies has until October 20 to approve the budget,s revenue section and send it to the Senate, which has until October 31 to ratify it. The Chamber must pass the expenditures section by November 15. By law, the oil price used in budget calculations is determined by a pre-set formula, and the budget must be balanced. The government still hopes that fiscal reform will be approved in time to incorporate it into the 2008 budget. Since the approval of fiscal reform will likely run up against the administration,s September 8 deadline, it is preparing different budget proposals based on the passage, or not, of fiscal reform. Post still believes that fiscal reform will be approved in time to be incorporated into the 2008 budget. End Summary.

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The Budget Process and Timeline  
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12. (U) Mexico's budget package is divided into two main parts: a "Revenue Law" and an "Expenditure Law." The Revenue Law, which sets the overall spending cap, must be approved by both houses of Congress. The Expenditure Law, however, is only reviewed and approved by the Chamber of Deputies.

13. (U) The timeline for the 2008 budget is as follows. President Calderon must submit a federal budget proposal to the Chamber of Deputies by September 8, 2007. The Chamber has until October 20 to approve the budget's revenue section and send it to the Senate, which has until October 31 to ratify it. The Chamber must pass the Expenditures Law by November 15. Once Congress approves the budget package, the

legislative process is over. The President has 20 days to publish the budget in the Official Gazette after congressional approval. The Executive does not have veto power over the budget, but it is responsible for executing the budget through the Finance Secretariat (Hacienda).

14. (U) Under the Budget and Fiscal Responsibility Law, the price of oil used in budget calculations is set according to a formula that is based on the average price of Mexican crude oil for the last ten years and the forecasted market price for the next four years. The law also specifies that the budget must be balanced. (Note: the GOM does not use the Public Sector Borrowing Requirement statistic for calculating the budget balance, but rather a definition that excludes significant public borrowing. End Note.) If Congress approves more expenditures than are in the President's budget proposal, it must identify a revenue source to offset the extra spending. A deficit is only allowed in extraordinary situations, such as natural disasters, and will only be approved if there is a proposal that specifies revenue sources to cover the extra spending and a timetable for returning to a balanced budget.

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Fiscal Reform Up Against Budget Deadline  
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15. (SBU) A complicating factor for the 2008 budget process is fiscal reform. The Calderon government in June proposed a tax reform package that would increase the country's meager tax intake from approximately 10% of GDP to 13% by 2012, but the proposal has not yet been approved by Congress. The government had initially hoped to have the initiative

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approved during a special session of Congress this month so it could incorporate fiscal reform into the budget proposal due September 8. However, in an August 21 meeting with visiting U.S. Congressman Roy Blunt (R-Missouri), Undersecretary of Finance Alejandro Werner (strictly protect) said that negotiations on fiscal reform would continue into September. Werner remained hopeful that the reform would be approved by September 8. He said that the government is working two budget proposals: one that assumes fiscal reform is passed and another that assumes the initiative fails. This tracks with what another Hacienda official told Econoff on July 30 (reftel). Post has heard separately that Hacienda is also preparing for a situation where fiscal reform is approved, but the reform does not increase tax collection by as much as the government's proposal.

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Comment  
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16. (SBU) The Calderon administration has been vocal in its calls for the passage of fiscal reform, noting that additional tax revenues are needed for it to implement its planned infrastructure and social projects. In particular, the government has said that without fiscal reform, the private sector would have to fund a greater percentage of the infrastructure projects presented in Calderon's National Infrastructure Program, or risk returning to the status quo of limited investment in this area. Post still believes that fiscal reform will be approved in time to be incorporated into the 2008 budget (i.e. before the October 20 deadline for the Revenue Law).

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GARZA